The background of the entire page is a detailed, high-contrast photograph of an ancient stone carving. It depicts a large, central face with wide, circular eyes, a prominent nose, and a wide, toothy grin. The face is surrounded by intricate carvings of hands, leaves, and other decorative elements, suggesting a classical or ancient Asian style. The lighting is dramatic, highlighting the textures and contours of the stone.

The Monthly Magazine for Food and Agricultural Exporters

AgExporter

United States Department of Agriculture **September 2002**
Foreign Agricultural Service

Assessing Asian Markets

In Indonesia, the Philippines, Thailand, South Korea and China, economic growth, trade reform and taste trends are boosting sales of U.S. agricultural products—and augur well for future growth.



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Indonesian Marketplace Rebounds From Financial Crisis

By *Dennis Voboril and Fahwani Y. Rangkuti*

Since economic crisis began gripping Asian countries in 1997, U.S. agricultural exporters have had first-hand experience with Indonesia's economic roller coaster, exacerbated by severe drought in 1997/98 and ongoing political uncertainties.

In 1996, U.S. agricultural exports to the country soared to a record \$900 million, but by 1998, they had dipped to \$489 million. Since this low point, U.S. agricultural exports to Indonesia have rebounded, to a new high of \$953 million in 2001.

The re-creation of this export market in Indonesia owes much of its success to USDA's implementation of export programs designed to help emerging markets evolve and, sometimes, cultivate future markets for U.S. products—most notably:

- The Export Credit Guarantee Programs (GSM-102 and GSM-103) underwrite commercial loans of U.S. agricultural exports.
- The P.L.-480 food assistance program (Food for Peace) provides for government-to-government sales (also to private entities) of agricultural commodities to developing countries on credit terms or for local currencies.
- Surplus commodities (mostly soybean meal), provided in 2000 under Section 416(b) economic development assistance, helped lead to significant commercial sales in 2001.
- The Emerging Markets Program (EMP), which aims to develop or expand markets for U.S. agricultural exports, helped create a market for U.S. high-protein

wheat in Indonesia's flour milling and baking industries.

- Annual marketing plan funds used in conjunction with the EMP helped expand annual sales of U.S. high-value food products to nearly \$80 million.
- USDA cooperators provided technical assistance for many activities undertaken by the FAS Agricultural Trade Office (ATO) in Jakarta.

In fiscal 2001, the United States guaranteed credit for \$725 million worth of agricultural sales and provided almost \$20 million worth of food aid to Indonesia.

The overall economic outlook for Indonesia is for slow but continued growth, with annual U.S. agricultural exports expected to show steady, moderate increases.

The Indonesian marketplace does present challenges that seem intimidating, among them a crippled banking sector, large public- and private-sector debts, exchange rate volatility and political uncertainties. But on the positive side, fundamental political changes have made Indonesia the world's third largest democracy, and there has been dramatic market growth over the past few years.

Market Opportunities Abound

Indonesia's 200-million population is relatively young: More than half the popu-

lation is under 25. Nearly 60 percent of the residents live on Java and buy 60-65 percent of consumer goods.

Most upper and middle-income people live in urban areas. While this consumer group numbers about 40 million now, in pre-crisis times it was nearer 78 million. Economic stability and growth promise an increase in the number of affluent consumers.

The population is becoming more literate and Westernized due to overseas study and travel, access to international television, expansion of modern malls and major hotel and restaurant chains, the presence of Western expatriates and dramatic growth in tourism.

Consumer spending rises during holiday seasons, which include the Muslim month of Ramadan and celebrations of Lebaran or Idul Fitri, Chinese New Year and Christmas. During these times, consumption goes up for flour, sugar, eggs, poultry and other meats, cheeses, cakes, cookies, pastries and fresh and dried fruits.

The Indonesian consumer remains very price-conscious and susceptible to economic swings. There are signs that brand loyalty, once pronounced, is diminishing, while "brand image," a perception based on marketing portrayals, has become more important.



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THOUGH NOT YET REQUIRED, IT IS STRONGLY RECOMMENDED THAT *HALAL* CERTIFICATION BE INCLUDED IN LABELING.

More urban women are entering the workforce and staying there after they marry and have children. With less free time, their focus is increasingly on convenience.

The average Indonesian kitchen does not have many appliances. In Jakarta, the capital city, just 43 percent of households have refrigerators; only 27 percent have stoves. Microwave ovens are found in only 10 percent of Jakarta homes. Consequently, retail products need to be shelf-stable. Besides relying on stored foods, consumers may shop daily at street stalls or eat out.

Face-to-Face Works Best

While quality and price are important to importers, in Indonesia they are secondary to the personal interaction of business partners.

Agents can help conduct market research. They also can register your product with the Ministry of Health. Singapore distributors, agents and importers can be considered. They transship large quantities of products in the region.

Once selected, supporting your agent with a quality product and providing education on the best ways to promote, handle and prepare the product will enhance your chances of success.

Keep in Mind ...

Indonesian consumers retain some brand loyalty and prefer good quality, well-packaged, well-distributed and promoted products that are competitively priced.

Indonesia's bound tariff rates on major food and agricultural items generally range from 5 to 30 percent. However, tariffs on all food items were cut to a maximum of 5 percent in February 1998 under an International Monetary Fund agreement that remains in effect. The major exception is the 170-percent duty applied to imported alcoholic beverages.

The government levies a 10-percent value-added tax and a luxury tax ranging from 20 to 35 percent on certain products. These taxes are collected at point of import.

New government regulations on labeling for *halal* certification (for products meeting Islamic dietary and handling requirements) are not yet fully implemented. However, it is strongly recommended that *halal* certification be included in labeling, since 85 percent of the population is of the Islamic faith.

Retail Sector To Grow

The retail food business in Indonesia was not greatly affected by recent economic and political uncertainties. Only specialty stores with a high percentage of imported products lost sales.

Looking to the future of retail stores, most growth is predicted in the supermarket, hypermarket and mini-market sector that had impressive sales estimated at \$1.1 billion in 2000. Sales are expected to triple by 2005.

Most of the larger stores buy imported products from distributors or agents. If a product is imported directly, it is usually perishable. However, direct imports by these stores are expected to increase.

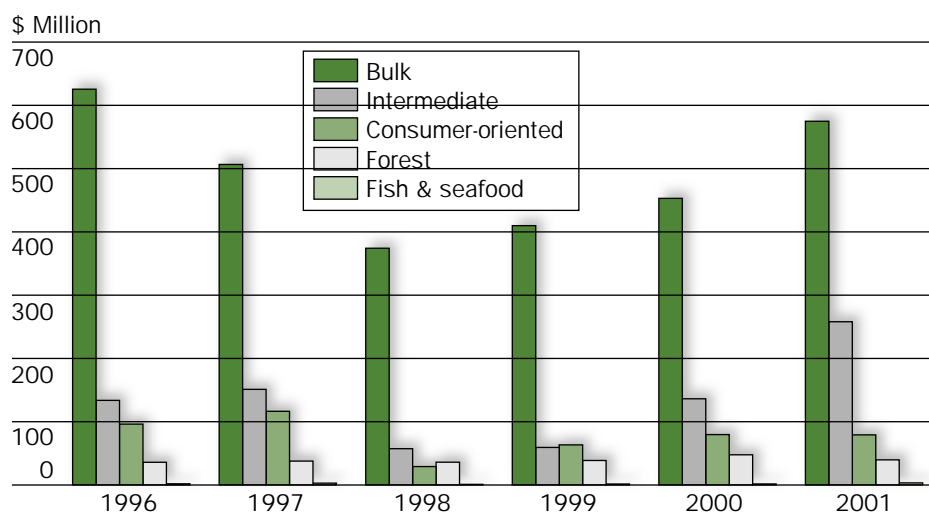
The best way to gain retail market entry is to find an agent who will assure the widest distribution for products as well as undertake the marketing efforts necessary to create product awareness.

Best prospects include fresh fruits, frozen french fries, sauces and seasonings, canned foods, beans, pastas, salad dressings and snack foods. Niche markets exist for frozen pizzas, frozen meats and poultry, deli items, biscuits, confectionery items, breakfast cereals, tomato paste, cooking and salad oils and nonalcoholic beverages.

HRI Diversity Reflects Populace

The hotel, restaurant and institutional (HRI) industry in Indonesia is as diverse as its population. There are fast-food outlets,

Bulk Products Lead U.S. Exports to Indonesia
Recovery From Financial Crisis Began in 1999



clubs, hotels and restaurants that serve local and Western foods. But the majority of HRI outlets are small restaurants, street stalls known as *warungs* and other vendors.

However, catering operations do serve airlines, factories and private functions. Cruise and military ships, mining and oil operations, prisons and hospitals, although to a lesser extent, are also a part of this sector.

Success in the HRI area requires a reputable importer/distributor. These companies have the import licenses and knowledge of customs clearance procedures required to bring in products and can assure the widest distribution for your items. Jakarta and Bali are ideal locations to target market-entry efforts, since they have the most five-star hotels and upscale restaurants.

About 60 percent of HRI imports are purchased by the better hotels and restaurants that sell Western food. Western fast-food outlets follow with 30 percent. Caterers and institutional users account for the rest.

Exporters who supply HRI items should be aware that there has been a tourism slowdown since Sept. 11, 2001, though the Indonesian Ministry of Tourism does predict a tourism rebound in 2002. The HRI industry is now focusing on Indonesian customers, who are more price-conscious than tourists.

U.S. products with the best HRI market prospects include: beef and beef liver; chicken parts, duck and turkey; french fries, pastry products, sauces, seasonings, oil and vinegars, cereals, canned goods, tree nuts, ice cream and snacks for hotel use; wines, liquor, beer, soft drinks and juices; and Mexican foods.

Food Processing Entry

While the Indonesian food processing

Key Trade Information for Indonesia

Item	Imports From the World (\$ Million)			U.S. Market Share (Percent)		
	1998	1999	2000	1998	1999	2000
Total agricultural products	3,765	4,543	4,164	12	14	17
Consumer-oriented products	388	483	818	10	11	11
Fish & seafood products	17	25	37	3	2	2

market is huge, the market for imported products is small. Of the 4,500 food processing companies in Indonesia, fewer than 10 major groups are dominant. Most companies are small-scale family businesses. Significant growth potential exists, however, for U.S. food ingredients, as the economy develops and the population becomes more urban.

As always, take care when choosing an agent for this sector. Check out the financial standing and commercial acumen of prospective partners. It is also best to test the waters before granting exclusive rights to represent your product.

Best prospects for food processing include wheat, food-use soybeans, beef, dairy products, flavorings, processed poultry products, processed potato products, fruit concentrates, peas and lentils.

Distribution Needs Improvement

Indonesia's hundreds of small islands make distribution difficult. Problems include inadequate ports and unreliable shipping schedules. Outside the big cities and Java, infrastructure facilities, such as the cold chain, are often underdeveloped.

About 10 national distributors service the entire country, while numerous agents and distributors handle local areas. Most imported products enter Indonesia through

a distributor or agent who sells them directly to modern retail outlets. Major food processors and a few large retailers buy directly from foreign suppliers.

Ironically, trade in fresh fruits differs from other consumer-ready products. Whereas most products have a more direct distribution line to retailers, fresh fruits will change hands several times before reaching the consumer, usually at street markets. ■

The authors are the director and the agricultural marketing specialist with the FAS Agricultural Trade Office in Jakarta, Indonesia.

For up-to-date information on trade opportunities in Indonesia, contact that office at: Tel.: (011-62-21) 3435-9399; Fax: (011-62-21) 571-1251; E-mail: atojkt@cbn.net.id

For details of the report on which this story is based, see FAS Report ID1035. To find it on the Web, start at www.fas.usda.gov, select **Attaché Reports** and follow the prompts.



Liberalization Jumpstarts Philippine Retail Food Sector

By Ramona C. Singian

While imports represent only a quarter of the \$18 billion that 83 million Filipinos spend each year on food, the U.S. share of this import market is almost 29 percent. In 2001, this translated to \$832 million worth of U.S. agricultural product sales.

Liberalization Opens Door

The growth spurt of agricultural imports and improvement in Philippine food retailing can largely be attributed to passage of the 2000 retail trade liberalization law, which allows foreign retailers to operate independently. Large modern stores now offer a variety of imported foods and can purchase directly, eliminating a 20- to 40-percent markup charged by importers and distributors.

Though the Philippine economy has been affected by the 1997-98 global economic crisis and the devaluation of its peso, demand for U.S. imports is expected to expand due to continued growth and effi-



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ciency gains in the retail food sector, an improving economy and a strong interest in Western brands.

Besides being able to bypass distributors, local supermarket chains are modernizing, expanding and broadening their imported brands. The two largest local chains—Rustans and Shoemart, with 38 stores between them—are adding new outlets each year.

To keep up with the giants, smaller traditional retailers are staying competitive by combining their purchasing power and importing directly.

However, while direct importation is on the rise, middlemen importers and distributors continue to handle most of the retail food imports in the Philippines. Many major retailers have limited warehouse space, and long-time importers often carry popular branded products under exclusive distributorship agreements.

Domestic Production Waning

In 2000, the total output value of the Philippine food processing sector declined for the first time in a decade. While there is a good supply of skilled workers, domestic processors face other challenges—an erratic supply of domestic inputs that can force domestic prices higher than world market prices, outdated facilities and expensive electricity.

Consequently, Philippine food manufacturers and processors are relying increasingly on imported food ingredients and packaging materials.

U.S. Brands Preferred

Bound by 20th century cultural and economic ties with the United States, today's Filipinos have inherited a lingering

Top Imports

Popular imported food items for the Philippines include:

- Candy, chocolates, cookies, biscuits, pancake mixes and frozen dough products
- Canned foods such as mushrooms, fruit cocktail, corn, Vienna sausages, pork luncheon meat and corned beef
- Cheeses
- Chestnuts
- Fresh fruits such as apples, mandarin oranges, grapes and lychees
- Fresh vegetables such as iceberg and romaine lettuces, broccoli, cauliflower and celery
- Frozen sliced, french-fry and hash-brown potatoes
- Frozen poultry, pork, pork bellies and boneless beef
- Frozen squid and mackerel
- Oatmeal and other cereals
- Snacks such as chips
- Soups

taste for established and new U.S. products.

As incomes grow, so do purchases of U.S. brands. Supermarkets regularly feature U.S. products to attract customers, whose expenditures on food increased 25 percent from 1997 to 2000.

Several distinct product trends have surfaced in the last couple of years:

- The “fresh” concept, whereby stores feature rows of fresh produce and other products, has enabled major supermarket chains to elevate grocery shopping standards.
- Neighborhood convenience stores are now adding fast-food services with dine-in areas.
- Promotional sales coincide with paydays and holidays. Wholesale clubs are using mailers to promote new products.
- The proliferation of credit and debit cards has benefited food retail sales.

Entry Strategies

The best entry approach for U.S. exporters is to secure the services of an exclusive importer/distributor or trading firm to handle the details of Philippine customs and distribution.

Larger Stores Carry More Imports

Retail Outlet	Description
Super center/Hypermarket/Warehouse store/Wholesale club	Products usually arranged in a warehouse setting, offering “one-stop” shopping.
Supermarket/Grocery store	Mostly inside shopping malls, department stores or within a commercial complex. Store size varies.
Convenience store/Gas mart/Kiosk	Longer operating hours and often co-located with gasoline stations near intersections. Limited food line, usually with fast-food services.
Mom-‘n’-pop/Sari-sari store	Owned by community member, selling a variety of essential food items.
Wet market	Usually sells “fresh” items—meats, fish, vegetables and fruits. Only fresh fruits are sometimes imported.

New exporters should focus on opportunities with the bigger chains that own super centers, hypermarkets, supermarkets and convenience stores. The traditional wet markets and mom-‘n’-pop (*sari-sari*) stores, located in neighborhoods, sell essential household items, with fresh fruits their only imports.

Large urban, retail chain stores usually have many suppliers, and import directly if a product has enough sales volume. These stores have imported product sections and tend to be “one-stop” shopping centers.

Convenience stores and gas marts, also

usually run by chains, tend to supply basic necessities with fast turnover. Imported items include snacks, chocolates and convenience foods like noodles. The parent chain may import some items directly.

With several brands of prepared foods already on the market, there is a move toward more convenience items. Dual-income families with busy schedules are looking for time-savers, including microwaveable foods.

Increased demand for organic foods and healthy light, low-fat, low-salt and low-cal items also seems to be a coming trend in the market. ■

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For details, see FAS Report RP2012. To find it on the Web, start at www.fas.usda.gov, select **Attaché Reports** and follow the prompts.



Large Chains Drive Thailand's Retail Food Sector



Since imported foods can make up as much as 30 percent of their inventory, the big food retail chains of Thailand—supermarkets, superstores and hypermarkets—are best bets for U.S. exporters seeking to enter this market.

In 2001, this sector, dominated by European and Japanese giants, expected to garner 45 percent of food retail sales, amounting to \$7.3 billion.

Thailand's traditional markets, which account for half of retail food sales, offer limited prospects for U.S. products. Their customers prefer time-honored domestic foods.

Even with somewhat sluggish economic conditions in the country, food retail sales grew by 5 percent in 2000 and 2001. Continuing recovery from international financial crises promises an upswing in the economy that will spur growth in retail sales.

Large Store Profile

Most of the larger stores in Thailand—hypermarkets and discount stores—have their own distribution centers, reducing dependence on outside distributors. They have developed house brands for ready-to-eat and ready-to-cook foods, including bakery items, TV dinners, sausages, bottled water, cooking oil, rice, sauces, cereals, dairy products and fruit juices.

Stores by the Number in 2001

Supermarkets: 170
Convenience stores and gas marts: 5,750
Hypermarkets and discount stores: 80
Traditional groceries: 270,000
Wet markets: 564,000

U.S. Products That Sell

A host of U.S. products are doing well in Thailand:

- Spices, seasonings, corn oil, mayonnaise, peanut butter, sauces, pickles, jams, jellies, syrups and vinegar
- Snack foods such as chips and dips
- Fresh and frozen seafood (lobster, crab, crawfish and other fish)
- Beer, wines and whiskey
- Biscuits, cookies, pancakes, muffins, cake and pancakes mixes
- Cereals
- Canned fruits, vegetables, pie fillings and soups
- Candy, chocolate and chocolate milk mix
- Carbonated beverages and instant coffee
- Red meats such as corned beef
- Turkey
- Dairy products such as milk powder, cheeses (cheese spreads, cream cheese, cheese sticks, cheese dip) whipped cream, sour cream and ice cream
- Fresh fruits (apples, grapes, cherries, plums, peaches and nectarines)
- Preserved or dried fruits
- Fruit juices (apple, prune, orange, grape and sparkling white grape)
- Ready-to-eat dishes such as macaroni and cheese
- Nuts (peanuts, walnuts, hazelnuts and macadamia nuts)
- Microwave popcorn
- Rice (paddy, long and short grains)
- Pet food

These stores often have fast-food outlets and other restaurants, kiosks, laundries, florists, bookstores, photography stores and movie rental stores.

Though fewer in number than other food retailers, hypermarket and discount store chains are the fastest growing retail food sector in Thailand, adding 100,000 square meters of new retail space in the first half of 2001, up over 40 percent from the same period a year earlier. Space expansion for the year was projected at 20 percent.

The two largest hypermarket chains—Big C and Tesco Lotus—accounted for 95 percent of this expansion. At least 10 more hypermarkets and discount stores are planned for 2002. Most of this new growth is on the outskirts of Bangkok and in other urban areas of the larger provinces.

Besides lower prices and product variety, the increasing popularity of these big stores can be attributed to prime locations, ample parking, attractive displays and product freshness.

Exporters should be aware that many large chains in Thailand charge listing fees

or listing allowances for new products, in accordance with a preset formula.

Supermarkets Partner To Survive

Faced with fierce competition from larger stores, supermarkets are seeking new alliances to attract more customers. For example, CRC Ahold provides dry groceries to Jiffy convenience stores at 120 Jet service stations.

In 2000-2001, supermarkets expanded their space about 5 percent. Tops, the largest supermarket chain, added three outlets, while Food Lion opened three stores.

Convenience Stores and ASEAN

U.S. food imports in Thailand's convenience stores have decreased over time, due to the Association of South East Asian Nations (ASEAN) Free Trade Area.

Though convenience stores do not sell many U.S. imports, regionally produced U.S. snack brands have become best sellers.

Preferential tariffs for ASEAN members opened the door for U.S. investors to shift manufacturing bases from the United

THE BIG RETAIL FOOD CHAINS ARE EXPECTED TO GARNER 45 PERCENT OF FOOD RETAIL SALES.

States to Thailand and other ASEAN countries such as Indonesia and Malaysia. Lower labor and transportation costs and the relative value of regional currencies vs. the U.S. dollar in the recent past contributed to the competitive advantages relocation afforded these companies.

Convenience stores experienced a 6-percent growth in sales in 2001. The largest convenience store chain, CP 7-Eleven, maintained its growth rate of 200 new stores a year, adding to its existing 1,850 outlets, with a target of 2,000 stores nationwide by the end of this year. Its closest competitor, Siam Family Mart, added 70 outlets in 2001, bringing its total to 170.

Most of the gas stations in Thailand also operate convenience stores or gas marts. The market leader, CP 7-Eleven, experienced 10-percent growth in 2001, due to fast expansion and the purchasing power of younger Thai consumers.

Some convenience chains are introducing Western-style fast-food outlets. But except for liquor, most products sold in these stores are produced locally.

Direct Contact Best

With \$630 million in agricultural, fish and forest product sales in 2001, U.S. exporters had 15 percent of Thailand's food import market. For best results, prospective exporters should initially contact importers and distributors for retailers, and representatives of large chains that import directly.

The large chains include supermarkets, discount stores, hypermarkets, and convenience stores. Though limited as import outlets now, the convenience, gas mart and kiosk chains offer potential for new products not produced locally.

Imported foods tend to do well in Bangkok and other major cities, especially

Take Advantage of Thailand's Growing Import Market

Pros	Cons
About 9.5 million Thais can afford imported foods and appreciate U.S. brands and quality.	Depreciation of the Thai baht and other regional currencies, relatively higher freight costs, plus high oil prices have made U.S. products pricier than imported foods from other countries.
Thais view U.S. products as safe.	Local manufacturers have an inside track on tailoring products, tastes and packaging to consumer preferences at lower cost.
The growing retail industry is looking for new imported food products.	Importers and retailers need training in purchasing and handling U.S. food products.
High-quality, U.S.-style foods are not presently produced in Thailand.	Thais prefer good quality food, but are price conscious.
Many U.S. quality products are available.	Thai "green" organizations have generated adverse publicity about products derived from biotechnology.
There is a strong potential for niche markets with good pricing.	Only certain consumer groups have a taste for U.S. brands; most prefer Thai culinary products.
Consumers in Bangkok and other major cities have become less traditional.	More variety in imported foods is increasing competition from third country suppliers.

in more affluent urban neighborhoods, where expatriates live, and in areas visited by tourists.

U.S. suppliers must also consider effective pricing, shelf life and customer preferences.

Local Competition

Domestic products will continue to play a major role in the Thai market because many of the country's 62 million people still shop at traditional wet markets and mom-'n'-pop independent groceries. Though wet markets in urban areas still claim a significant market share, their sales are gradually declining due to expansion of chains, growing consumer affluence and increased exposure to Western foods.

Import Tidbits

Thai food imports were projected to increase 12 percent in 2001, despite the baht devaluation and high oil prices.

The Thai government uses high import taxes and a less than fully transparent ap-

proval process to protect local businesses, but the Thai food and drug agency has shortened the food registration process for some imports. Select foods may only require two weeks instead of the usual four-to six-month wait for clearance. Products that can bypass the longer process are fresh fruits, seasonings, sauces, beer, fresh and frozen seafood and biscuits. ■

For information or assistance in exporting to this market, contact the FAS Office of Agricultural Affairs at the U.S. Embassy, Bangkok, Thailand. Tel.: (011-66-2) 205-5106; Fax: (011-66-2) 255-2907; E-mail: agbangkok@ksc11.th.com

For details, see FAS Report TH1129. To find it on the Web, start at www.fas.usda.gov, select **Attaché Reports** and follow the prompts.



South Korea's Recovery Fuels U.S. Exports

By Seh Won Kim



The Republic of Korea, one of the "Four Dragons" or "Four Tigers" of East Asia (along with Hong Kong, Singapore and Taiwan), has managed an enviable record of economic growth in the last three decades. Though rocked by the financial crisis that began in 1997, South Korea's gross domestic product began showing signs of recovery by 1999.

The health of the country's economy is important to U.S. agricultural exporters, since South Korea's 46 million residents must import about 70 percent of their food. Of the \$12 billion that South Korea spent on agricultural imports in 2001, \$3 billion worth were of U.S. origin, with consumer-oriented products making up almost a \$1 billion share.

With the country losing 30,000 hectares of farmland every year to development, it is likely that demand for agricultural imports will only increase.

Demographics: Largely Urban

The large urban population, concentrated in Seoul, makes an ideal marketplace for high-value items. U.S. exporters looking to increase their sales in Korea should appeal to women and younger people. In 2000, 45 percent of the women in Korea over 14 years old were employed outside the home. In traditional households, though the husband might be the major wage earner, it is the wife who manages the home expenses and savings.

In urban areas, families on average spend \$395 per month on food and beverages, or



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27 percent of total expenditures. Of this amount, over 39 percent is spent on eating out.

How To Do Business

FAS' Agricultural Trade Office (ATO) in Seoul can provide a list of importers and encourages exporters to contact them directly. By way of introduction to prospective customers, send catalogs, brochures, product samples and price lists for the products you would like to sell.

Once contact has been made, a visit is in order. Exchange business cards and arrange a formal introduction. Korean business people emphasize personal contacts and rapport. When conversing, make sure you are understood.

Best High-Value Prospects

- | | |
|-----------------------|--|
| • Poultry meats | • Processed and frozen fruits and vegetables |
| • Seafood | • Bakery products |
| • Dairy products | • Wines |
| • Citrus | • Pet food |
| • Tree nuts | • Beef offal and organs |
| • Sauces | |
| • Coffee | |
| • Confectionery items | |
| • Red meats | |

After establishing a relationship with an importer, be prepared to tailor a product's design, packaging and market approach to the Korean culture. And prepare for the unexpected!

The ATO also sponsors the yearly U.S. Food Showcase that targets importers, wholesalers, distributors, retailers, hotel and restaurant buyers, food processors and media. This show usually attracts 3,000 trade representatives from related food industries.

Target Your Products

Younger Koreans tend to be more amenable to Western tastes, with a higher propensity to consume Western-style foods—as demonstrated by fast-food and family restaurants catering to the young.

In general, consumers prefer national brands and familiar products. Some examples of Korean national tastes are crackers (crispy and unsalted), unsweetened biscuit-type products and fruit-flavored candies that are soft and not too sweet.

Korean consumers also like natural, fresh foods without additives. As incomes climb, so do preferences for health, functional and low-calorie foods. Of course, quality and reasonable prices are also important.



CONSUMER-ORIENTED PRODUCTS MADE UP ALMOST A THIRD OF U.S. SALES.



Korean consumers are very sensitive to food safety issues. For example, the outbreak of bovine spongiform encephalopathy (BSE) in Europe and Japan has resulted in reduced consumption of both domestic and imported red meats. Poultry meats have partly replaced beef.

Clearing Customs

Tariffs can be confusing, but an importer can help determine how much a product will be assessed.

Plant and meat quarantine inspections are very strict in Korea and require certificates that can be obtained from an authorized domestic or foreign laboratory. Two U.S. laboratories have been approved. They are the Oregon Department of Agriculture's Export Center and Omic USA Inc., also in Oregon.

Korean customs is responsible for making sure all documentation is in place before a product is released for distribution and sale. Many organizations and agencies have oversight of agricultural imports, and that can sometimes delay perishable items. Other regulatory agencies control licenses

or quotas. Korea's food and drug agency assures that products meet Korean standards and issues import certificates.

Market Trends

U.S. suppliers should generally work through Korean importers. Only food processors import large volumes of ingredients directly.

Retailers can range from outdoor markets to periodic farmers' markets, department stores, supermarkets, convenience stores, mom-'n'-pop stores, discount or membership warehouse stores and national cooperatives.

In 2000, the four retail groups most likely to purchase imports made these food sales:

- **Department stores/shopping centers:** Just over 100 stores averaged \$23.5 million each in food sales.
- **Supermarkets:** Over 1,140 stores averaged \$1.5 million in food sales.
- **Convenience stores:** More than 2,600 outlets averaged \$330,000 in sales.
- **Discount stores:** This fastest growing sector averaged \$44 million in sales per store.

Korean Language Labels Must Contain:

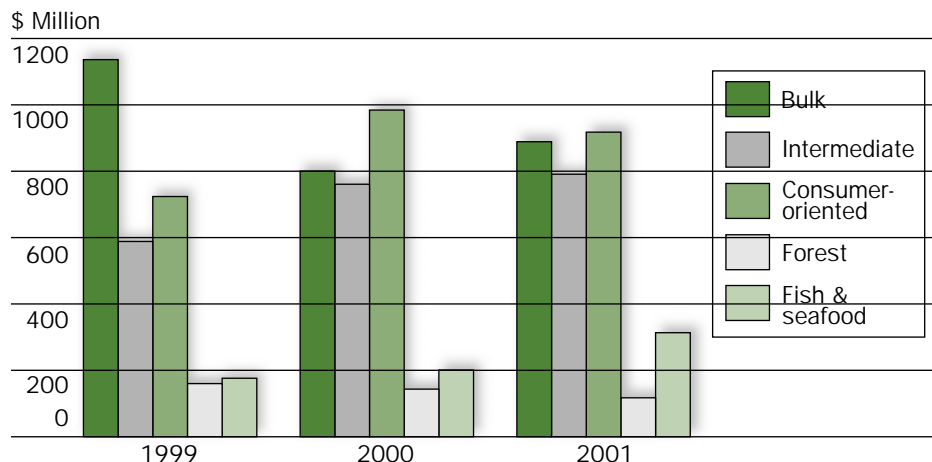
- Product name
- Product type
- Importer's name and address, and information for product return
- Manufacturing month and year
- Shelf life
- Contents by weight or volume (grams, liters or percentage) or by number of pieces
- Major ingredients followed by next four ingredients (and percentages)
- Nutrient contents for special nutritional or health supplementary foods
- Other details for designated foods

Food Processors Need Ingredients

Korea imports many agricultural products for processing, including corn, soybeans, wheat, essential oils, frozen orange juice concentrate, turkey and duck meat, almonds, walnuts, powdered milk and beef tallow.

Many Koreans give gifts of high-value food products during the two big three-day holidays in Korea—Chusok (similar to Thanksgiving) in early October this year and the Lunar New Year (in February 2003). ■

In 2000 and 2001, U.S. High-Value Exports Led Sales to South Korea



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For details, see FAS Report KS1060. To find on the Web, start at www.fas.usda.gov, select **Attaché Reports** and follow the prompts.



Examining China's Potential

By *Peter Moustakerski*

For decades, businesses from around the world have dreamed about selling their products in China. In the early years of the 21st century, the lure of the vast Chinese market remains powerful. When will the potential of this enormous market be fully realized? Certainly, China's membership in the World Trade Organization (WTO) has raised hopes among exporters from around the world that there will be a freer flow of their goods to Chinese customers.

But for the Chinese market to reach its full promise, there will have to be accelerated development of the country's transportation, distribution and logistics infrastructures to meet the growing demand for high-value food and agricultural products. In addition, the rising disposable income levels that are spurring a nationwide consumer revolution in China will have to continue.

The Potential Is There

China continues to have one of the world's fastest growing economies. For ex-



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CHINA CONTINUES TO HAVE ONE OF THE FASTEST GROWING ECONOMIES IN THE WORLD.

ample, in 2001, the official gross national product growth reached 7.3 percent, even as much of the world suffered recession. The country has been helped by its strong export business (in 2001, it accounted for 4.3 percent of world exports) and persistent direct foreign investment, especially since China joined the WTO.

In addition, after decades of restricting peasant migration into China's cities, the government has embraced a policy of urbanization, partly in the hope that this will increase consumer spending on everything from homes to electronics to recreation. Though the majority of Chinese people

still live in the countryside, the trend is clear. In 2000, the population grew 9.9 percent in Beijing, 13.6 percent in Shanghai and 18.8 percent in Guangdong Province. Cities with the wealthiest and most cosmopolitan consumers are concentrated on China's seaboard.

There is no question that Chinese consumers have more to spend. Per capita consumption grew by 5 percent in 2001, to an average \$420 per person. The government has helped boost consumer spending by instituting longer national holidays and raising pay for civil servants. Rising disposable incomes are fostering an increasingly conspicuous consumer culture. People are willing to spend more on education, medical care, luxury goods, gifts and entertainment. The one-child policy, strictly enforced in cities, has contributed to the rise in disposable incomes.

U.S. companies that supply hotels and restaurants and export high-value products such as seafood, beef and wines and gift

High-Value U.S. Products With the Best Prospects

- Red meats
- Poultry meats
- Dairy products
- Eggs
- Salmon
- Crab and crabmeat
- Surimi (fish paste)
- Roe and urchin
- Pet food
- Processed fruits and vegetables
- Fresh fruits and vegetables
- Snack foods
- Tree nuts
- Wines

products such as fresh fruits, chocolate and candy, are especially well positioned to benefit from these trends. Food and agricultural businesses also stand to benefit from greater awareness of health and food safety issues. Chinese consumers increasingly accept comparatively expensive imported food and agricultural products as higher quality, safer, more stylish and worth the money.

The market for consumer foods and beverages in China continues to develop and grow at an impressive pace. In 2000, the aggregate market (including wholesale, retail and food service) for consumer foods and beverages (including imports, but excluding tobacco and liquor) reached \$1.3 billion, up 11 percent over the previous year. Given China's gourmand culture and tradition of lavish family and business banquets, it comes as no surprise that more than 60 percent of the market is attributed to the food service sector, which has grown 15 percent overall for the past three years.



Chinese Consumer Tastes

- Chinese prefer fresh meats and produce to canned and processed ones.
- Chinese prefer smaller size packages to "jumbo packs" despite the promise of long-term savings.
- In the case of snacks and candies, Chinese like to see the actual product inside the packaging, so include a transparent window.
- Chinese respond to the attractiveness of the package, taking its size, colors and design into careful consideration.
- Chinese are attracted to big, established brand names, which they consider proof of authenticity and superior quality.

Currently, the prospects for U.S. consumer food and beverage products remain strong in food service, retail and processing. U.S. exports of consumer-oriented foods and agricultural products to China set an all-time record in 2001, \$285 million. The U.S.-China Agricultural Cooperation Agreement of 1999 resolved some longstanding disputes over U.S. exports of key agricultural commodities, particularly wheat, meats and citrus, and paved the way for the sales record. China's accession to the WTO could result in lower tariffs on U.S. imports and greater foreign investment in the country's infrastructure.

Give Yourself the Best Advantage

For U.S. food exporters wanting to tap into that immense Chinese market potential, it is essential to understand local business customs. Being unprepared for the cultural and practical aspects of doing business in China can cost businesses dearly. U.S. exporters should spend the necessary time to acquaint themselves with the basics of Chinese business etiquette and come prepared to recognize and tackle the cultural challenges facing foreigners doing business in China.

Keep in mind that consumer tastes in China vary considerably from region to region and are constantly evolving. Although they favor Asian products, consumers are open-minded and willing to experiment with new flavors and products, including many Western ones. Before committing resources to any product, concept or flavor, U.S. exporters should invest in targeted market research. Never make assumptions about the preferences of Chinese consumers. ■

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For details, see FAS Report CH2808. To find it on the Web, start at www.fas.usda.gov, select **Attaché Reports** and follow the prompts.

To be successful, U.S. exporters also must carefully study all relevant Chinese laws and standards that pertain to their field of business. English translations of relevant Chinese import laws are available online at: www.fas.usda.gov/gainfiles/200204/140683352.pdf

Detailed, step-by-step import procedures may be found at: www.fas.usda.gov/gainfiles/200111/130682601.pdf



Breakfast Cereals May Find Market in China

By John D. Rutledge

U.S. manufactured breakfast cereals are only beginning to enter the Chinese marketplace. While the present market is small, there is tremendous demand potential.

Cereals for Visitors

The primary buyers of breakfast cereals in China are hotels that cater to foreign visitors. In nearly every one of these hotels, the dining rooms offer buffet breakfasts that include cereals. In addition, some supermarkets and hypermarkets are beginning to sell to local consumers. Amounts and varieties tend to be limited and, for the most part, locally produced.

Joint Ventures and Exporters

Overseas joint ventures produce most of the domestic cereals. For example,



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Kellogg's has a plant in Guangzhou that makes corn flakes and other cereals. Heinz also has been in Guangzhou for more than 10 years producing cereals for babies.

Most of the imported breakfast cereals available in China are manufactured by Kellogg's factories in Australia, Malaysia and Thailand.

The Chinese Taste

The Chinese appear to prefer either sweet-tasting cereals or ones with no added flavoring so that fruit and spices can be added to suit individual preferences.

The two biggest constraints on retail sales appear to be price and product awareness. The consensus among local importers and distributors is that breakfast cereals are too expensive for most consumers. A 20- to 30-percent reduction in the retail price would increase demand tremendously. Consumer education must also be a major part of any marketing campaign to teach the Chinese how to eat U.S.-style breakfast cereals. Although foreign breakfast cereal joint ventures have made some headway in product promotion, more effort is necessary before sales can expand.

Many Chinese appear to enjoy cereals not only for breakfast, but also as snacks eaten straight from the box, so cereals as snack foods have tremendous market potential in China. The Chinese still prefer

their own cuisine for the traditional meals of breakfast, lunch and dinner, but they are willing to try other products as snacks. Some of the most successful U.S. high-value, consumer-product exports to the Chinese market during the last decade entered as snack foods, including almonds, pistachios and fresh fruits.

China's import tariffs for breakfast cereals range from 25 to 30 percent. Since cereals are processed foods, they are also subject to an additional 17-percent value-added tax. It is important to note, however, that with China's accession to the World Trade Organization, import tariffs are expected to decline over the next several years. ■

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**CEREALS HAVE
TREMENDOUS SNACK
POTENTIAL IN CHINA.**



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Serving France's Food Industry

By *Roselyne Gauthier*

In 2001, France's hotel, restaurant and institutional (HRI) food sector served approximately 6.8 billion meals worth almost \$51.4 billion in 175,000 outlets. That's a lot of food. And future prospects are bright. Over the next few years, French HRI sales are expected to grow by at least 5 percent per year. The snack and fast-food segments of the market are expected to surge by 13 percent.

U.S. exporters who focus on product quality, innovation and variety can penetrate France's HRI sector through importers, distributors, cash-and-carry stores and wholesalers. Developing a strong relationship with a savvy and reputable French importer can help an exporter in meeting such challenges as duties, import and sanitary certificates, labeling, paperwork and other documentation.

U.S. suppliers wishing to enter the French market should keep in mind the following consumer trends:

- Children and teenagers prefer ethnic foods such as Chinese, Tex-Mex, North African and Indian.

- Consumers, especially older men and women, are becoming increasingly health-conscious.
- Consumers are demanding variety and high-quality food products that are certified by government authorities as safe.

Best Product Prospects

Currently, 65 percent of France's food imports comes from fellow European Union (EU) members, such as the Netherlands, Belgium, Luxembourg, Germany, Spain, the United Kingdom and Italy. Only 3 percent comes from the United States. To expand market share, U.S. exporters must adapt their products for the HRI sec-



U.S. EXPORTERS WHO FOCUS ON PRODUCT QUALITY, INNOVATION AND VARIETY CAN PENETRATE FRANCE'S HRI SECTOR.

tor. For example, frozen foods such as fish, vegetables and desserts that are easy to use have great appeal to caterers and restaurateurs. There is also strong demand for salad dressings and tomato sauces.

Other products with particularly good sales potential include:

- **Nonalcoholic beverages**—Consumption of nonalcoholic drinks rose 1.8 percent in 2001. Fruit and vegetable juices, especially orange and grapefruit juices, have the most promise.
- **Seafood**—France is a major importer of seafood. Currently, about 40 percent of all seafood imports comes from the EU, and the rest from Norway, Thailand, Iceland, Senegal and the United States. U.S. seafood with convenient packaging and innovative formats has the best chance of selling to French restaurants. Fresh salmon, cod and shrimp are best sellers, and demand is growing for lobster, scallops and canned salmon. The popularity of fish fillets and ready-to-eat seafood is increasing.
- **Alcoholic beverages**—French consumers still drink wine when they go out to eat. Their growing interest in "exotic" wines has opened the door to U.S. wines. The market for beer is also growing as the French see it as a good complement to Tex-Mex foods.
- **Exotic meats**—Because France does not produce exotic meats, there is an open market for approved imports of these products. U.S. ostrich and bison can be imported, provided the slaughterhouse is EU-certified and the animals are raised without growth stimulants.
- **Fruits and vegetables**—This dynamic sector offers good opportunities for U.S. exporters of reasonably priced products. While the EU supplies many of France's fruit and vegetable imports, growing de-

mand for exotic fruits and vegetables could be a boon to U.S. exporters.

- **Dairy products**—Yogurt and other fermented milk products are becoming more popular among increasingly health-conscious consumers. Although U.S. exporters face high tariffs, niches exist for producers of prepared ingredients such as sauces, grated cheeses and individually packaged desserts.

There are also good prospects in the French HRI sector for dried fruits and nuts, snack foods, soups, ethnic foods, breakfast cereals and rice.

Convenience in Demand

Because of their convenience, all kinds of ready-prepared and single-portion packaged foods are in demand by French HRI buyers.

Large French hotel chains, such as Accor, Envergnure and Choice, are industry leaders. The Choice group expects to open 130 hotels in France over the next five years. U.S. exporters of competitively priced, quality food products may find success in

selling directly to these chains. Similarly, the growth of restaurant chains in France presents U.S. exporters with direct selling opportunities. Food sales in U.S.-style fast-food restaurants—led by McDonald's and followed by Quick, a distant second—are still rising. French fast-food restaurants, which offer typically French foods such as baguette sandwiches, quiches and salads, are on the rise as well. ■

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For details, see FAS Report FR2026. To find it on the Web, start at www.fas.usda.gov, select **Attaché Reports** and follow the prompts.



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SIAL and ANUGA: Two Shows for European Success

It is a small world after all. Consider this: A New York company, selling Japanese-style sushi kits, finds buyers from Greece and Turkey at a trade show in France.

"We were certainly surprised," said Alan Johnson, vice president of marketing for Baycliff Company in New York, N.Y. "We would never in our wildest dreams have gone after that market, but thanks to our participation in these two shows, the buyers came to us and we've been very happy with the partnership."

The shows Johnson is referring to, SIAL and ANUGA, are two of Europe's largest trade exhibitions held in alternate years. Companies can participate in the U.S. pavilion at these shows through USDA's Foreign Agricultural Service.

Johnson's 20-year-old company specializes in sushi kits and other Asian cuisine. The company has been exporting for half of its time in business, and has been a regular participant in both shows.

This year, the SIAL International Food Products Exhibition will be held in Paris, France on October 20-24.

The SIAL 2000 show attracted 132,000 visitors from 185 countries. Of that total, 37 percent of the visitors were in the import and export trade business, and 44 percent worked in the food industry. According to surveys, more than 80 percent of the visitors were the actual buyers for their company. News media from 58 countries also attended.

ANUGA 2003 will be held in Cologne, Germany on Oct. 11-15, 2003. The 2001 show attracted 165,000 buyers from 147 countries. Organic and convenience foods were the stars of the 2001 show.

While the initial cost of participating in these shows gave Johnson pause, he said he has never regretted his investment. In fact, Johnson, whose company does a quarter of its business in exports, says exporting firms can't afford *not* to attend these shows.

"Even if I had an unlimited budget, there is no way I could go to Greece and find buyers the way I do at SIAL and ANUGA," Johnson said. "I would be



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knocking on the door of one buyer when it's his competitor next door who is looking for our product." ■

For more information on exhibiting products at the SIAL or ANUGA shows, or for information on other USDA-endorsed shows, contact USDA's Foreign Agricultural Service, Trade Show Office. Tel.: (202) 690-1182; Fax: (202) 690-4375.



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Trade Notes...

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U.S. Deciduous Fruits Dominate Horticultural Exports to Taiwan

Taiwan, one of the largest markets for U.S. agricultural products since the 1970s, is currently the sixth largest market for U.S. horticultural exports. In fiscal year 2001, U.S. horticultural shipments to Taiwan were valued at \$355 million, 4 percent above exports in 2000. Fresh deciduous fruits, valued at nearly \$160 million, accounted for about 45 percent of total U.S. horticultural sales to Taiwan in 2001. The largest players in this category were apples, \$57 million, peaches and nectarines, \$51 million, table grapes, \$22 million, and cherries, \$15 million.

USDA Plans International Technology Conference

USDA will host a ministerial-level International Conference on Agricultural Science and Technology early next year. The conference will focus on the needs of developing countries in adopting new technologies and the role of partnerships in improving access to technologies. In Rome in June, at the World Food Summit: Five Years Later, U.S. Agriculture Secretary Ann M. Veneman said that everyone benefits as more countries understand and share the benefits of scientific and technological innovation in agriculture. Biotechnology and other agricultural production, processing and information technologies have the potential to significantly boost farm yields, cut food waste, encourage environmentally sustainable production and offer new marketing opportunities for farmers. The conference agenda will cover access to technologies, scientific research, the relationship between regulatory practices and innovation, and the creation of partnerships to help developing countries adopt new technologies to increase agricultural productivity. The dates and location for the conference will be announced later this year.

World Coffee Production Forecast at Record Level

World coffee production in marketing year 2002/03 is forecast to reach a record 122.1 million bags, up 10 percent from the previous year. Brazil's crop in 2002/03 is forecast at a record 46.9 million bags, up 39 percent, or 13.2 million bags from the previous year. Mainly as a result of the large Brazilian crop, total supply in 2002/03 is forecast to reach 143.6 million bags, up nearly 6 percent over the 2001/02 level. Total supplies of coffee have not reached this level since 1991/92, when they reached 149.5 million bags. Brazil is expected to account for about 37 percent of total supplies in 2002/03, with Colombia's and Vietnam's share each forecast at 8 percent. In comparison, during 1991/92, Brazil's share of total supply was 34 percent, with Colombia at 16 percent and Vietnam at 15 percent.



Also in This Issue:

- French hotels, restaurants and institutions hold out sales prospects for enterprising exporters
- Two European trade shows can open doors for your products

And Next Time, Turn to AgExporter for:

- The Caribbean Basin: An overview and selected highlights of this region's opportunities for U.S. products



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